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SUBJECT: KARNATAKA GOVERNMENT IN LIMBO

11. (SBU) SUMMARY: Bangalore, India's leading technopolis and the capital of Karnataka, is burdened with a tardy and incomplete state government led by contending coalition partners. Local business leaders complain that the new Singh government has overshot the mark in shifting focus from urban to rural development and they have even threatened to move out expansion projects, but the Congress-JDS coalition government has not responded convincingly. Chief Minister Dharam Singh's pliable politics, however, might permit the coalition to limp along longer than Bangalore business leaders would like. END SUMMARY.

Karnataka Government in Limbo

12. (SBU) Nothing better epitomizes the current state of the Karnataka Government than its inability to build a full cabinet team. Five months have passed since the Congress-Janata Dal-S (JDS) coalition government, the first of its kind in the state, came to power. Chief Minister Dharam Singh has established and missed several deadlines for expanding the cabinet from its present strength of 12 ministers to the full strength of 34. According to Bangalore journalists, the conflicts between Congress and JDS leaders as well as the infighting within the JDS have prevented Singh from accomplishing the task. Important portfolios such as primary education, health, and IT have no political heads of their own. "Dharam Singh has to look after 24 portfolios, apart from coalition politics; how can you expect anything better?" asked Ranganath, Editor of Bangalore's prominent daily, the Kannada Prabha.

JDS - Congress Tension Delays Projects

13. (SBU) Deep divisions in the coalition have also thrown a monkey wrench into the works of several projects. Business houses had expected the much-delayed Bangalore airport project at Devanahally to proceed faster than it has, given that the same party is in power at the Center and in the state. "We have a coalition government in the state, you know," Chief Executive Officer Albert Brunner of Bangalore International Airport explained to Post, "The present Deputy Chief Minister (who belongs to the JDS) wants to reexamine the state support agreement the previous Congress government had finalized, and it takes much longer than we expected." Brunner, however, was hopeful that the issue would be sorted out eventually, perhaps within a few days. India Today correspondent Steven David was more pessimistic about the airport, citing whimsical, politically driven changes to the plan that carried significant additional financial costs.

14. (SBU) The Bangalore-Mysore Infrastructure Corridor project of the previous government is also stuck, after JDS leader Deve Gowda charged the previous Congress Government with corruption. Former Chief Minister SM Krishna reacted angrily with a letter to the Chief Minister asking him to scrap the project and return the acquired land to the farmers. Krishna's pet private-public partnership to facilitate Bangalore's infrastructure development - the Bangalore Agenda Task Force - is another casualty of the change of government. The project, though still alive on paper, remains completely non-functional.

Industry Captains Complain of Misplaced Priorities

15. (SBU) During recent meetings in Bangalore conducted by visiting New Delhi PolCouns, politicians, journalists, and business leaders complained that the Singh government had overshot in shifting its focus from urban to rural development. Several, including Infosys Chairman N.R. Narayana Murthy, assailed Chief Minister Singh for his lack of any vision for

Karnataka's future. As evidence of his misplaced priorities, several IT leaders cited the Chief Minister's failure to meet even once with the technology community. The director of a top-tier US technology company remarked that unlike the past (when the office of Chief Minister Krishna was a stop on the itinerary of every visiting US executive) his CEO wouldn't even ask to call on Chief Minister Singh, preferring to go straight to the source in New Delhi, where the government is viewed as more responsive to industry concerns. Releasing company results on July 23, Azim Premji, Chairman of Wipro and India's richest man according to Forbes, threatened to relocate all expansion projects elsewhere if the city's infrastructure is not improved.

Dharam Singh Promises; Industry Skeptical

16. (U) Many Post contacts have expressed doubt that the Karnataka Chief Minister has the focus or dynamism to deliver on his promises. Pressured by industry leaders, Chief Minister Dharam Singh has made some attempts to publicly recognize the importance of Bangalore's infrastructure, announcing on November 15, for instance, that the government would repair 900 km of road surface in Bangalore. Consul General Haynes asked the Chief Minister on November 18 if the project had started and the Chief Minister said only "We will assuredly do it." On November 1, inaugurating Bangalore IT.Com, Dharam Singh announced a \$90 million Hi-Tech City Project in Bangalore spread over 1070 acres and said: "We will leave no stone unturned to ensure that Bangalore maintains its pre-eminent position as an IT destination in India and the world." Karnataka IT Secretary Shankarlinge Gowda informed Post, however, that apart from an increase in the tax on computer hardware from 5% to 12%, nothing has changed in the new government's IT policy. Industry remains skeptical of Dharam Singh's ability to deliver responsive administration.

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Delhi: Yes to Bangalore, but Farmers Come First

17. (U) On October 19, the Deccan Herald reported that Prime Minister Singh called Chief Minister Dharam Singh to urge him to repair the Bangalore city roads in response to complaints from the IT czars. The Times of India reported on October 21 that several Bangalore industrialists raised the matter also with Rahul Gandhi, Sonia's son and an MP in his own right, when he toured the city. "No new industries are coming to Bangalore...If investors drop Bangalore from their list, it will be India's loss," they reportedly told him, reminding him that the competition was not with any other Indian city but with China. According to the newspaper, Rahul Gandhi's reply was: "Indian politics is narrowly focused on issues and short-term gains. Here, in Bangalore you are working on the latest of technologies while in my constituency (Amethi in UP) and other villages there are people who are living without water and electricity too. I feel sad about this and have been grappling with this situation day in and day out."

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Congress' Partner Competing for Farmer Vote Bank

18. (SBU) The JDS is even more focused on the agriculture sector, a priority area the Congress would not like to leave exclusively to their coalition partner. Talking to Consul General Haynes, Bangalore Deputy Chief Minister and JDS leader Siddaramaiah, who also handles the Finance portfolio said that one of the most important things the new government has done is to make available subsidized loans from cooperative societies to farmers at 6% interest in place of the 12.5-13.5% interest charged previously. He has also doubled the annual budgetary allocation for agriculture from its previous \$100 million. Industries Minister and JDS leader P.G.R. Sindhia acknowledged to PolCouns that the state government has been slow to address Bangalore's yawning infrastructure gap and was "still finding its feet." But he was unapologetic about the JDS focus on rural constituencies, arguing that this was an overdue corrective to former Chief Minister Krishna's urban preoccupation.

Villagers Don't Care for IT, But Bangalore Helps All

19. (SBU) According to Ranganath, Karnataka citizens in general, particularly the ones outside Bangalore, are not excessively concerned over Bangalore's IT sector's concerns. "If they were a manufacturing industry, there would have been a little more support from the people," he observed. However, he added that over a period of time, the government's incompetence on all fronts would affect the popularity of the government." Business sources, meanwhile, continue to point out that Bangalore provides about 60% of the state's GDP, and any shortfall in Bangalore would affect the entire state.

Pro-Farmer Policy Fig Leaf Can't Hide Inefficiency

10. (U) COMMENT: Interpreting the 2004 election results as a mandate to change from a pro-urban, IT driven development strategy, the present government seems to have found an excuse for being less active on the IT front despite loud protests from business leaders. On paper, the new government's priorities are rural development and farmers' welfare, areas that no government can ignore. In reality, however, the leaders spend more time and energy on coalition politics, warring over spoils and settling old scores. To the new generation of Bangalore businessmen, at least, it is back to the old Congress politics of muddled thinking, lip service to the poor, and an increasingly irrelevant government. But Dharam Singh's flexible politics may help to keep his government in power much longer than Bangalore's business community would like. END COMMENT

Haynes